



ATTORNEYS AND COUNSELORS AT LAW

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December 15, 2005

VIA E-FILING & HAND DELIVERY

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: D.T.E. 05-61; Milford Water Company

Dear Ms. Cottrell:

Enclosed for filing please find Milford Water Company's responses to the following First Set of Information Requests of the Town of Milford in the above-captioned matter: 1-3, 1-4, 1-5, 1-6, 1-7, 1-11, 1-12, 1-20, 1-21, 1-22, 1-29, 1-32, 1-33, 1-34, 1-41, 1-46, 1-59.

Any questions on this matter should be directed to the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read "Eric J. Krathwohl", with a large, stylized flourish at the end.

Eric J. Krathwohl

Encl.

cc: Shaela McNulty Collins, Esq., Hearing Officer –Settlement Intervention Staff  
John Geary, Esq., Hearing Officer – Adjudicatory Staff  
Gerald M. Moody, Esq.  
Henry C. Papuga, Manager  
Stephen B. Alcott

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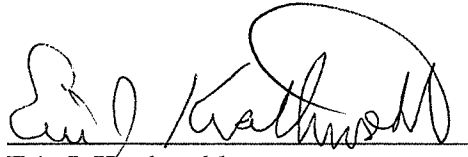
COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS  
AND ENERGY

D.T.E. 05-61

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding in accordance with the requirements of 220 CMR 1.05(1) (Department's Rules of Practice and Procedure).

Dated at Boston, Massachusetts this 15<sup>th</sup> day of December, 2005.



Eric J. Krathwohl  
Counsel

Of Counsel for  
Milford Water Company

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Town 1-3      On page 7 of the testimony of Stephen Alcott there is reference to a "Comprehensive Compliance Evaluation" from the Department of Environmental Protection dated March 9, 2005. Please provide a copy of that document. In addition, please provide any other documents which constitute orders or direction from the Department of Environmental Protection as to conservation efforts required to be undertaken by the Water Company.

**Response:      This information was provided in response to SIS 1-23 and SIS 1-24.**

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Town 1-4      Please explain the basis for item listed as "Reserve for Deferred FIT – Depreciation" referenced on Table 4 to SBA1.

**Response:**    The \$673,360 deduction from rate base is from Account 313-6000 "DEFERRED FED. INC. TAX" as shown on the Company's balance sheet for the 12 months ended 12/31/04. The Company's accountant calculates this entry based on timing differences for current and deferred income taxes.

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Town 1-5      Please describe the basis and the purpose of the "New Long Term Debt" referred to in Table 5 under footnote "a" as being "in process".

**Response:**      The purpose is to "term out" a portion of the Company's short term debt, thereby providing a greater degree of certainty to the Company's financial situation and allowing for new construction projects to be funded out of short term debt lines over the next couple years. Consistent with standard utility industry approaches to capitalization, Milford Water periodically reviews its capital structure, its short term debt balances, the capital requirements resulting from its construction program, interest rate levels and trends and other factors. Milford Water is aware of the Department's general preference that utilities' equity ratio not be too much greater than 50% (Milford's is currently over 75%). Also, as a general matter, it is customary that permanent plant be financed by long (not short) term debt (or equity). At this time, therefore, it makes sense for many reasons to issue new long term debt at this time.

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**Town 1-6** Please explain the basis for the "Capital Cost of Hydrants per Books" set at \$877,776 as referred to on Schedule R5 to Exhibit "SBA1".

**Response:** This amount, \$877,776 is the total investment in hydrants as of 12/31/04 and is the sum of the following:

Account 112A (Company Investment)	\$403,883
Account 112B (CIAC)	<u>473,893</u>
Total Hydrants	\$877,776

These accounts are also shown on page 63 of Exhibit SBA-1, entitled Plant Investment, DTE Return Page 202.

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Town 1-7      Please itemize the amount actually expended by the company in the test year for: (a) installation of new hydrants (b) maintenance and repair to existing hydrants.

**Response:**      (a) installation of new hydrants      **\$20,011**  
                         (b) maintenance and repair to existing hydrants      **\$5,083**

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Town 1-11      Refer to Exhibit SBA1, Schedules A-4 and A-5. Please explain in detail the basis for the \$22,400 referred to as "Depreciation on Post Test Year Additions", listing what such additions are and when they were placed in service.

**Response:      The Company is currently closing its books for 2005 and will provide the relevant information as soon as possible.**



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Town 1-12      Refer to Exhibit SBA1, WP-COS-B. Please itemize the \$54,508 booked during the test year to Account 610.11, Miscellaneous General Expense.

**Response: Please see response to SIS 2-10.**

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**Town 1-20** Why did the Company wait so long to prepare a rate increase when significant increases occurred throughout the period since the last increase?

**Response:** The Company began its formal analysis of whether a rate increase was necessary in about Fall 2004. Such initial analysis took some time to complete. Additional time was required for review by Company management's analysis and consideration before a decision could be made to proceed. Promptly after such decision in Spring 2005, initial work began on the rate case and accelerated through the date of filing in September, 2005. It is not so much a matter that the Company waited until Fall 2004 to consider a rate increase as much as a balancing of pressing operational matters (for which a limited staff is available to assist) and the significant time, resources and expense of preparing a rate filing with the reasonable goal of trying to have a more gradual increase in water rates over time.

It is also noted that the results of the Fall 2004 analysis showed that an increase of approximately 13%. This significantly lower amount was based on December 31, 2003 data updated to June 2004. Several major factors resulted in the much larger increase determined for the filing in September 2004. These included recognition of significant new plant investment and significant increases in electricity, chemicals and health insurance costs. Some of these factors could not be determined until the books were closed for 2004. Prior to the fall 2004 preliminary analysis although some level of rate increase could have been justified, the Company did not consider the then occurring shortfall in revenue to be a problem in need of immediate remedy. Based on the fall 2004 preliminary analysis the Company Board voted to seek a rate increase.

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Town 1-21      At what point in time would the Company have known that its total costs (operating and capital) were close to or exceeding its collection of total revenues by about 15%?

**Response:**    See Response to Town 1-20. The Company did reasonably know a significant revenue increase was required following the referenced analysis, and proceeded promptly with efforts on a rate filing. Such analyses can only be done with adequate data, so typically reviews are based upon fiscal (calendar) years, using annual returns, for which there is a several month time to prepare.

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Town 1-22      What were the additions to plant that collectively result in the \$6 million increase since 1997? (Please specify the cost of each major item and totals for smaller items by type, e.g., meters, services, hydrants, etc.)

**Response:**      Page 63 of Exhibit SBA-1 shows the itemized detail of the plant additions by primary plant account. Response to SIS 1-30 shows detailed documentation of plant additions in excess of \$25,000. See also Company response to SIS 1-9

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**Town 1-29** When was the last Cost of Service Study (COSS) performed for the Company? What was the year used in that study to make the cost allocations? Why hasn't the Company prepared a Cost of Service Study (COSS) for this case?

**Response:** Although the Company has sought to provide cost justification of various charges through Mr. Alcott's presentation, it has not performed a full and detailed COSS of the nature seen in recent years for larger utilities. The Company's limited customer base makes it difficult to justify the significant time and expense associated with a COSS. Further, through the process of Mr. Alcott's review, a reasonable basis for cost causation and contribution is ascertained and balanced against the policy of seeking to make changes to rate design on a gradual basis. Certainly, performance of COSS's for smaller water companies has not been the norm.

A major factor not preparing a COSS for this case is that, in the Company's opinion, DEP's requirements regarding rate design supersede using the results of a COSS as a basis for rate design.

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Town 1-32 Is it reasonable and equitable to increase rates to 48 individual customers by 40.5% (average increase-20%) in phase-1 and 63% (average increase-39%) in phase-2? What measures, if any, has the Company considered and/or plans to implement in order to mitigate the financial impacts to these 48 customers?

**Response:** This question appears to refer to the 48 industrial customers identified on Tables 3 and 4 of Exhibit SBA-1. As described in the prefiled testimony and responses to other information requests regarding the design of the Company's proposed rates, the Company made the decision to implement the conservation rate measures that the Company understood to be required by DEP. The impacts described in Town request 1-32 are a result of the decision to implement conservation rates. The Company has not considered mitigation measures for these industrial customers.

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**Town 1-33** Has the Company performed any analysis to determine if the requested return on equity is fairly close to or significantly different from market rates currently being earned by water companies with comparable risks? If the answer is affirmative, what are the results of the analysis? If the answer is negative, why not?

**Response:** As indicated in the Company's initial filing in this case, it relied on the Department's optional cost of equity regulations in order to determine a "fair and reasonable allowed rate of return on equity." Those regulations are based upon the recognition that the time and expense of a more elaborate analysis of return on equity may not be justified for water companies because they are so much smaller than the normally encountered electric and gas utilities for which cost of equity determinations are routinely undertaken. That is certainly the case for Milford Water, so no analysis was performed of what water companies have risks comparable to those of Milford Water and no analysis was done to determine what earned returns were for such companies. We do note that it is a difficult process to determine truly comparable companies, due to differences in service territory, customer mix, supply availability, nature of regulation and many other factors.

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Town 1-34     If it were the case that the required market return on equity for other comparable companies is closer to 8% or 9%, is it the Company's position that it should be allowed to earn the proposed 11.5% and that the Commission is required to allow the higher value?

**Response:**     The Company's position is that the Department should follow its regulations contained in 220 CMR 31 and relevant precedent in setting an appropriate return on equity.



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**Town 1-41**      What is the first full year that the Company expects its new rates to be in effect (i.e. the "pro-forma year")?

**Response:**      The Company is hopeful that its new rates will become effective on April 1, 2006, continuing for the following 12 months, though the Company recognizes that under applicable statutes, it would be possible for the first full year not to begin until August 1, 2006.

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**Town 1-46** Why is there no conservation incentive (price signal-higher block rates for greater consumption) for non-residential customers?

**Response:** The Company proposed the conservation incentive rates to respond to direction of the Massachusetts Department of Environmental Protection. That direction required replacement of the declining block rate with a single block price generally and a "conservation incentive" that the Company understood to apply to residential customers only. The Company considers elimination of the declining block structure a significant conservation incentive in itself for non-residential users, who presumably tailor their use of water to economic pressures more than residential customers, whose use of water includes both a comfort and esthetic (outside watering) component.

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Town 1-59    Is it the Company's contention that assets are only taxed for their property values by communities after they are allowed in the rate base by the DTE? If this is not the case, then have nearly all of the facilities installed after the last rate case only been in service since January 1, 2005. If it is the Company's contention, please reference the statute and/or regulation that established this requirement.

**Response: No, that is not the Company's contention. Nor does the Company contend that the referenced facilities have only been in service since January 1, 2005.**